439 tons British. The Niemen is navigable as far as the Lithuanian-
505 Polish 'administrative line', and is used for cargo traffic as far as
361 Kaunas.

361 The administration of the harbour is provided for in an annex to
504 the Memel Statute of 1924, and is controlled by a board consisting
475 of one member appointed by the Lithuanian Government, one by the Memel Directorate, and one by the League of Nations. Since 1924 noteworthy steps have been taken to improve the technical equipment of the port. The harbour has been extended and deepened, docks have been excavated, cranes have been installed, and ware-
[457] houses built, the cost, running into 'several tens of millions of lits',[1] being borne mainly by the Lithuanian Government. Some of the expenditure, however, has been met out of a loan issued by the city in 1927 amounting to 4,000,000 RM. nominal and offered in Germany.

361 As has already been mentioned, Memel is a comparatively impor-
438 tant industrial centre. Of the 1,056 industrial enterprises in Lithuania employing 5 or more workmen at the beginning of 1937, 137 were in Memel, and of the 30,561 persons employed in such industries throughout Lithuania, 8,112 were employed in the Memel Territory. The more important industries include sawmills, veneer works, chemical fertilizer plants, and cellulose undertakings. There are also textile and tobacco factories of some size.

361 Outside the industrial district of the Territory the principal
241 occupation is agriculture. It is impossible to give any indication as
439 to the volume of production, since the figures are included with those of Lithuania proper. According to the available information, however, there is normally a small surplus of production for export; and since the easiest, if not the only, market is East Prussia, the agricultural population of the Territory suffered considerably from the virtual suspension of commercial intercourse between Lithuania and Germany owing to the dispute of 1932–5. The Agreement of August 1936 was consequently followed by an appreciable improvement.

361 The Statute of 1924 gives the Administration powers to levy direct
651 and indirect taxation inside the Territory with the exception of
[652] Customs and excise duties and certain monopolies. The Territory has a separate budget, which in 1934 balanced at about 14 million lits. The only funded debt outstanding is the loan of 1927 already mentioned.[1] Owing to the harbour's international importance, there is a comparatively large number of commercial and other banks domiciled in the Territory.

[1] *Lithuanian Telegraph Agency (Elta) Service*, March 1936.

1[see above, line 12 -- Analyst]

Timber in all forms, flax, and butter were also the principal exports [439] to the United Kingdom.

The proportion of imports from Germany and the United Kingdom tended on the whole to decrease during the period. This again was largely due to considerations arising out of the respective currencies, 1923 being a year in which British and, still more, German goods were cheap to import. After the mark and the pound were stabilized, however, German goods were cheaper to import than British, owing to the comparatively high rate at which the pound was stabilized, and British exports to these countries tended to fall off proportionately more than German. German trade methods in these countries, also, were more enterprising than British; moreover, the German trade connexion in this area being of long standing, it was somewhat difficult for other foreign firms to establish a selling organization. The goods imported from the United Kingdom and Germany during the period covered the whole range of the imports of these countries, though it is probably true to say that proportionately more textiles were imported from the United Kingdom than from Germany, and proportionately more machinery, hardware, and chemicals were imported from Germany than from the United Kingdom. Herrings, coal, and coke came mainly from the United Kingdom.

U.S.S.R. Except for the transit trade, trade with the U.S.S.R. was never resumed during this period on the pre-War basis, at any rate as regards Estonia and Lithuania, though a small quantity of Estonian textiles continued to be imported. The principal development was the commercial agreement signed between Latvia and the U.S.S.R. in 1927, which led to an increase of exports, mainly manufactured, to the latter. The rapid increase in industrial exports to the U.S.S.R. between 1927 and 1930 led for a time to the hope that Latvian industry might recover some of its pre-War importance, but there was a severe decrease after 1930, and the treaty lapsed in 1932.

The Baltic Clause. Trade between the Baltic States themselves, as has been seen, was small; if the export of Lithuanian grain to Latvia is ignored, almost negligible. This was largely due to the fact that the principal exports of these countries are competitive, not complementary, which was one of the principal obstacles to closer economic co-operation in the Baltic States during these years. Nevertheless, in November 1923, Estonia and Latvia concluded a [451] treaty for the establishment of an Economic and Customs Union between the two countries, and an attempt was made to extend this system to Lithuania at a conference held at Kaunas in May 1924. It was then decided to appoint a commission to work out a scheme for the unification of the tariffs of all three countries, and subsequent negotiations proceeded on these lines. The result of such attempts

ally resulted from special capital expenditure, which was to be 652
covered out of loans raised for this purpose. This, for example, was the cause of Latvia's deficit in 1928–9, which was covered out of the proceeds of a loan contracted with the Swedish Match Company.[1] In Estonia, on the other hand, every fiscal year from 1922 to 1930–1 closed with a surplus. In general it is clear that, in the few cases where loans were obtained by the State during this period, the proceeds were allocated, to a very large extent, for capital expenditure of one sort or another, and were not used simply to bridge gaps between ordinary revenue and expenditure.

The difficulty of collecting direct taxes in peasant countries such 651 ●
as the Baltic States is considerable. It is not surprising, therefore, that only a small proportion of the public revenue is obtained from such sources:

TABLE 30. *Sources of Public Revenue*

Fiscal year	*Estonia 1928–9 (mill. kr.)*	*Latvia 1928–9 (mill. lats)*	*Lithuania 1929 (mill. lits)*
1. Total ordinary and extraordinary revenue	92·2	184·9	290·2
2. Total direct taxation	7·7	13·0	37·8
3. Percentage of direct taxation . .	8·3%	7·0%	12·0%

As regards the other sources of revenue, the most important was generally the Customs duties which, in the years referred to in the above table, amounted to 22·6 per cent., 33·1 per cent., and 20·6 per cent. of the total ordinary and extraordinary revenue, respectively, for Estonia, Latvia, and Lithuania. Apart from this, the chief items of revenue were the alcohol or spirit monopolies, which were held by the State in all cases during this period, and the receipts from the State forests. The railways do not appear to have yielded any very great net revenue to the State during the period.

In general, the finances of these States were soundly and success- 652
fully administered during most of the years here considered. The general level of expenditure, though high when compared with that of certain Central and East European countries, was not excessive. Public finance was not overburdened with a heavy interest charge. There was no extravagant borrowing at home or abroad. The level of taxation, so far as can be seen, was by no means intolerable. But, as with all countries which primarily produce raw materials, this favourable position largely depended on the maintenance of the existing level of prices; and, if they began to fall, it was clear that drastic changes would occur. Moreover, it has been seen that even during the present period there were several instances where the

[1] See above, p. 135.

been able to export during recent years. The same applies to sugar, at any rate as regards Latvia and Lithuania. By 1936 Latvia was able to dispense with sugar imports entirely, while in Lithuania imports were reduced to 0·4 per cent. of the total value of imports. The corollary to the increase of agricultural production is seen in the increase of imports of chemicals, largely consisting of artificial manure, and of agricultural machinery.

The other more important result of the policy of self-sufficiency is the increase of industrialization. The effect of this movement is shown in the decrease of manufactured textile imports in all three countries, and the general increase of imports of machinery and iron and steel goods proportionately to the total. It is noteworthy, also, that in Latvia, and to a smaller extent in Estonia, there has been an increase in the proportion of imports of raw cotton and wool, and other textile fibres such as hemp and jute; even in Lithuania, by far the least industrialized country of the three, imports of raw cotton and wool amounted to 3·4 per cent. of the total in 1936 as compared with an average of under 1 per cent. in 1928–30. The increase in the proportion of coal and coke imports into Latvia, also, will be noted. Lastly, it may be mentioned that the abandonment of the gold standard by Latvia in September 1936 was followed by the reduction of Customs duties on a number of imports such as petroleum, herrings, and rice, which was dictated principally by the desire to prevent an immediate rise in the cost of living.

Changes in Exports. The economic structure of the Baltic States is not such as to facilitate important changes in the nature of their export trade over a short period. Timber, butter, bacon, and flax continued to be the staple articles of export, though there was in Estonia and Latvia a slight tendency for the proportionate value of these exports to be rather smaller than before the crisis.[1] In both countries, however, there was an increase in the proportion of flax exports, and of paper-making materials. There was also a further decrease in the proportion of exports of manufactured goods. Most of the manufactured articles exported from Estonia and Latvia before the crisis went to the neighbouring countries, which, after 1931, severely restricted their imports of such goods. The most remarkable changes are, perhaps, in Lithuania's exports, namely, the increase in the proportion of butter, bacon, and grain exports,

[1] In October 1936 Latvia decided to adhere to the European Timber Exporters' Convention. The purpose of this body, formed in November 1935, is to adjust supplies to demand at a remunerative level of prices. The other members are Austria, Czechoslovakia, Finland, Poland, Rumania, Sweden, the U.S.S.R., and Yugoslavia. For 1937 it was decided to limit exports from these countries to 4,000,000 standards, of which Latvia's share was to be 127,000 standards. During 1938 there is to be a reduction of 15 per cent. in the quota.